

Message Text

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PAGE 01 GENEVA 01142 01 OF 03 161746Z

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INFO ALL EC CAPS 166

AMEMBASSY CANBERRA

AMEMBASSY OTTAWA

LIMITED OFFICIAL USE SECTION 1 OF 3 GENEVA 1142

PASS STR AND AGRICULTURE ELECTRONICALLY

EO 11652: NA

TAGS: EAGR, ETRD, EEC

SUBJ: ARTICLE XXII:1 CONSULTATIONS ON EC WHEAT FLOUR SUBSIDIES

1. SUMMARY. IN THEIR OPENING STATEMENTS AT THE GATT ARTICLE XXII:1 CONSULTATIONS ON EC WHEAT FLOUR EXPORT SUBSIDIES, THE U.S., CANADIAN AND AUSTRALIAN DELEGATIONS STATED THAT THE EC HAD USED THE SUBSIDY PROGRAM TO GAIN AN INEQUITABLE SHARE OF THE WORLD FLOUR MARKET IN CONTRAVENTION OF GATT. EC REPLIES TO THESE STATEMENTS AND TO SUBSEQUENT QUESTIONS ABOUT THE OPERATION OF THEIR SUBSIDY PROGRAM WERE LENGTHY AND EVASIVE. THEY ASSERTED THAT THERE HAD BEEN NO DAMAGE TO THE COMPLAINANTS AS A RESULT OF EC POLICIES AND CHALLENGED THE PARTICIPANTS TO DISCUSS THEIR PROBLEMS ON A CASE-BY-CASE BASIS. DESPITE THE FACT THAT THE TERMS OF REFERENCE OF THE CONSULTATIONS DEALT SOLELY WITH THE LIMITED OFFICIAL USE

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PAGE 02 GENEVA 01142 01 OF 03 161746Z

QUESTION OF FLOUR EXPORT SUBSIDIES, THE EC SAID THAT IT WAS UNACCEPTABLE TO DISCUSS WHEAT FLOUR EXPORTS IN ISOLATION FROM TRADE IN WHEAT. THEY IGNORED QUESTIONS AS TO WHY THE EC MARKET SHARE WAS INCREASING AND ATTACKED THE U.S. PL 480 PROGRAM. THEY PROVIDED NO NEW USEFUL INFORMATION ON THE FUNCTIONING OF THE EC SUBSIDY PROGRAM. AT THE

CONCLUSION OF THE MEETING, THE U.S., AUSTRALIAN AND CANADIAN DELEGATIONS EXPRESSED THEIR DISSATISFACTION WITH THE CONSULTATIONS AND RESERVED THEIR POSITION AS TO WHETHER OR NOT IT WOULD BE WORTHWHILE TO CONTINUE THEM AT A LATER DATE. END SUMMARY.

2. CONSULTATIONS ON EC WHEAT FLOUR SUBSIDIES UNDER GATT ARTICLE XXII:1 WERE HELD FEB 14. THE SESSION LASTED MORE THAN FOUR HOURS. U.S. DELEGATION WAS HEADED BY STARKEY, STR, AND FRASER, FAS. DELEGATIONS FROM CANADA AND AUSTRALIA, WHO HAD JOINED THE ORIGINAL U.S. REQUEST FOR CONSULTATIONS, ALSO PARTICIPATED. THE COMMUNITY DELEGATION WAS HEADED BY JACQUOT. REPRESENTATIVES OF NEARLY ALL THE EC MEMBER STATES WERE ALSO IN ATTENDANCE.

3. THE OPENING STATEMENT OF THE U.S. ASSERTED THAT THE EC SUBSIDY SYSTEM HAD ENABLED THE COMMUNITY TO OBTAIN AN INEQUITABLE SHARE OF WORLD WHEAT FLOUR TRADE IN CONTRAVENTION OF GATT AND IMPAIRED BENEFITS TO THE US ACCRUING UNDER GATT. WE POINTED OUT THAT THE EC SHARE OF COMMERCIAL EXPORTS HAD RISEN FROM 37 PERCENT IN EARLY 1960'S TO 69 PERCENT IN 1973/74, AND THAT THE RELATIVE SHARES OF ALL OTHER SUPPLIERS HAD DECLINED. WE ALSO SINGLED OUT SEVERAL SPECIFIC MARKETS, IN PARTICULAR SAUDI ARABIA AND JAMAICA, WHERE SUBSIDIZED EC SHIPMENTS HAD MADE INROADS TO THE DETRIMENT OF US TRADE. IN ADDRESSING THE SUBSIDY ISSUE, WE NOTED THE VERY LARGE DIFFERENCES BETWEEN EC AND US OFFER PRICES FOR WHEAT LIMITED OFFICIAL USE

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PAGE 03 GENEVA 01142 01 OF 03 161746Z

FLOUR, WHICH SUGGESTED THAT THE EC WAS USING WHEAT FLOUR SUBSIDIES TO SUBSTANTIALLY UNDERCUT NON-SUBSIDIZED FLOURS. FINALLY WE ASKED THE COMMUNITY TO EXPLAIN IN DETAIL HOW THEY CALCULATED SUBSIDIES.

4. THE AUSTRALIAN AND CANADIAN STATEMENTS (TO BE HAND-CARRIED TO WASHINGTON) WERE MORE GENERAL THAN THAT OF THE US BUT ON THE SAME LINES, NAMELY THAT THE EC HAD GAINED AN INEQUITABLE SHARE OF THE MARKET AND THAT ITS SUBSIDIES HAVE BEEN GRANTED IN A MANNER INCONSISTENT WITH GATT ARTICLE XVI. THEY STATED THAT THEIR OBJECTIVE IN PARTICIPATING IN THE CONSULTATIONS WAS TO OBTAIN THE ELIMINATION OR LIMITATION OF EC EXPORT SUBSIDIES SO THAT THEIR EXPORTERS COULD COMPETE ON A FAIR BASIS. AUSTRALIA NOTED THAT IT HAD PREVIOUSLY COMPLAINED IN GATT ABOUT THE INJURY CAUSED TO THE AUSTRALIAN INDUSTRY BY SUBSIDIZED EXPORTS OF FRENCH FLOUR. IN 1958 A GATT PANEL HAD RECOMMENDED THAT FRANCE EITHER REVISE ITS SUBSIDY SYSTEM OR CONSULT WITH THE

AUSTRALIAN GOVERNMENT BEFORE ENTERING INTO CONTRACTS FOR THE EXPORT OF WHEAT OR WHEAT FLOUR IN SOUTH EAST ASIAN MARKETS. SUBSEQUENT CONSULTATIONS WITH THE FRENCH HAD RESULTED IN UNDERTAKINGS TO RESTRAIN THE LEVEL OF SUBSIDIZED FRENCH EXPORTS TO CERTAIN MARKETS. SIMILAR COMMITMENTS WERE MADE BY THE GERMAN GOVERNMENT FOLLOWING BILATERAL CONSULTATIONS IN 1958. THE AUSTRALIANS EXPRESSED THE VIEW THAT FRENCH AND GERMAN OBLIGATIONS AND AUSTRALIAN GATT RIGHTS AHD NOT BEEN ALTERED BY THE ENTRY OF THESE COUNTRIES INTO THE EC AND THE INTRO- Duction OF THE CAP.

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PAGE 01 GENEVA 01142 02 OF 03 161807Z
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INFO ALL EC CAPS 167
AMEMBASSY CANBERRA
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LIMITED OFFICIAL USE SECTION 2 OF 3 GENEVA 1142

PASS STR AND AGRICULTURE ELECTRONICALLY

5. ALL THREE DELEGATIONS REGRETTE THE ABSENCE OF THE GATT SECRETARIAT AT THE CONSULTATIONS AND SUGGESTED THAT THE SECRETARIAT COULD PROVIDE USEFUL CONTINUITY FOR THE CONSULTATIONS AS WELL AS ASSISTANCE IN PREPARATION OF STATISTICAL INFORMATION. JACQUOT RESPONDED THAT THERE WAS NO PRECEDENT FOR SECRETARIAT PRESENCE AT ARTICLE XXII:1 CONSULTATIONS. ALSO HE QUESTIONED THE NEED FOR THE SECRETARIAT TO HELP WITH THE STATISTICAL DATA SINCE IWC DATA ARE READILY AVAILABLE.

6. JACQUOT'S REPLIES TO THE ABOVE STATEMENTS AND TO SUBSEQUENT QUESTIONS WERE LENGTHY, EVASIVE AND FULL OF IRRELEVANT DIGRESSIONS. HE TALKED AT LENGTH ABOUT DEVELOPMENTS IN THE MARKETS OF JAMAICA AND SRI LANKA, GIVING INNUMERABLE REASONS WHY THE OTHER CONTRACTING PARTIES HAVE NO REASON FOR COMPLAINT. HE REPEATEDLY LIMITED OFFICIAL USE

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PAGE 02 GENEVA 01142 02 OF 03 161807Z

COUNTERED REQUESTS FOR INFORMATION ON THE FUNCTIONING OF THE EC SUBSIDY SYSTEM WITH REQUESTS FOR DISCUSSION OF DAMAGES IN SPECIFIC MARKETS. HE PARTICULARLY BAITED THE CANADIAN DELEGATION TO GIVE HIM SPECIFIC EXAMPLES OF MARKET DAMAGE AND IGNORED REPEATED QUESTIONS FROM ALL THREE DELEGATIONS AS TO WHY THE OVERALL EC MARKET SHARE HAD INCREASED.

7. IN DISCUSSING TRENDS IN SPECIFIC MARKETS, JACQUOT ATTEMPTED TO USE A DIFFERENT BASE YEAR WHERE POSSIBLE TO DEMONSTRATE THAT THE EC SHARE HAD NOT GONE UP, OR THAT EXPORTS OF THE OTHER COUNTRIES HAD NOT DECREASED; TO ASSERT THAT ANY DECLINE IN WHEAT FLOUR EXPORTS WAS MORE THAN OFFSET BY INCREASED WHEAT EXPORTS; AND TO RAISE AN ARRAY OF "SPECIAL FACTORS" WHICH HAD SUPPOSEDLY INFLUENCED THE MARKET INCLUDING COMPETITION FROM RECENTLY CONSTRUCTED MILLS IN SINGAPORE AND THE USE OF JUTE RATHER THAN COTTON BAGS BY THE AUSTRALIANS IN PACKING WHEAT FLOUR*

8. THE MOST IMPORTANT POINTS RAISED BY JACQUOT WERE AS FOLLOWS:

(A) THE COMMUNITY WOULD NOT ACCEPT DISCUSSION LIMITED TO COMMERCIAL WHEAT FLOUR EXPORTS ALONE. THEY INSISTED THAT IT BE DISCUSSED IN THE CONTEXT OF THE OVERALL DEVELOPMENT OF WHEAT AND FLOUR TRADE AND IN RELATION TO NON-COMMERCIAL SALES. IN PARTICULAR, JACQUOT MADE REPEATED REFERENCES TO A "DELIBERATE" US POLICY TO EXPORT WHEAT FLOUR RATHER THAN FLOUR. HE NOTED THE CONSTRUCTION OF MILLS BY US GRAIN COMPANIES IN MANY MARKETS THROUGHOUT THE WORLD.

(B) JACQUOT ATTACKED THE US PL 480 PROGRAM FOR WHEAT FLOUR REPEATEDLY. HE ASSERTED THAT THIS PROGRAM HAS HAD A MAJOR INFLUENCE IN DEPRESSING COMMERCIAL EXPORTS. LIMITED OFFICIAL USE

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PAGE 03 GENEVA 01142 02 OF 03 161807Z

JACQUOT ALSO STATED SEVERAL TIMES (ERRONEOUSLY) THAT THE US WAS NO A COMMERCIAL EXPORTER OF WHEAT FLOUR.

(C) HE ARGUED THAT THE EC HAD CONFORMED COMPLETELY WITH GATT ARTICLE XVI IN ITS FLOUR SUBSIDY PROGRAM; AND

(D) ALLEGED THAT EC MILLS WERE MUCH MORE EFFECIENT THAN MILLS IN THE US AND IN OTHER COMPETING COUNTRIES.

9. WITH RESPECT TO PL 480, WE ACKNOWLEDGED THAT A LARGE SHARE OF US FLOUR SHIPMENTS IN THE PAST HAD BEEN UNDER PL 480 BUT THESE HAVE SUBSTANTIALLY DECREASED. WHERE THESE HAVE BEEN REPLACED BY COMMERCIAL PURCHASES IT HAS BEEN THE EC WITH ITS HEAVILY SUBSIDIZED PRICES THAT HAS LARGELY TAKEN OVER THIS NEW COMMERCIAL BUSINESS.

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PAGE 01 GENEVA 01142 03 OF 03 161812Z
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INFO ALL EC CAPS 168
AMEMBASSY CANBERRA
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LIMITED OFFICIAL USE SECTION 3 OF 3 GENEVA 1142

PASS STR AND AGRICULTURE ELECTRONICALLY

10. RE THE DIFFERENCES BETWEEN EC AND US OFFER PRICES, JACQUOT SAID THAT US PRICES WERE NOT REALISTIC, I.E., THAT OFFER PRICES HAD NOT BEEN MADE WITH ANY REAL INTENTION TO EXPORT. HE ALSO CLAIMED THAT IN SETTING EXPORT SUBSIDIES THE EC HAD TO TAKE

ACCOUNT OF THE VERY LOW OFFER PRICES MADE BY COMPANIES OPERATING UNDER INWARD PROCESSING ARRANGMENTS WITHIN THE COMMUNITY, THOUGH HE CLAIMED THAT THE EC SUBSIDY WAS NOT CURRENTLY SET HIGH ENOUGH TO MEET THESE PRICES. THESE INWARD PROCESSING OPERATIONS, WHICH ARE LOCATED MAINLY IN ITALIAN PORTS, IMPORT WHEAT DUTY FREE AND EXPORT IT AS FLOUR (WITHOUT AN EXPORT SUBSIDY). SIMILAR OPERATIONS HAVE BEEN ESTABLISHED IN OTHER MEDITERRANEAN COUNTRIES, INCLUDING SPAIN, AND IN OTHER PORTS SUCH AS SINGAPORE. BECAUSE OF THE AVAILABILITY OF LOW PRICED WHEAT, MODERN FACILITIES, AND IN SOME CASES, CHEAP LABOR COSTS, THEY ARE ABLE LIMITED OFFICIAL USE

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PAGE 02 GENEVA 01142 03 OF 03 161812Z

TO EXPORT FLOUR AT VERY LOW PRICES.

11. WHEN FINALLY JACQUOT DID PRESENT AN EXPLANATION OF THE CALCULATION OF THE EC EXPORT SUBSIDY, HIS REMARKS WERE BRIEF AND OMITTED IMPORTANT DETAILS. HE SAID THAT THE COMMISSION BEGAN WITH THE PRICE OF EC WHEAT, MULTIPLIED THIS PRICE BY A COEFFICIENT OF ABOUT 1.43 AND THEN AFTER MAKING A NUMBER OF ADJUSTMENTS (WHICH HE DID NOT CLEARLY IDENTIFY) ARRIVED AT AN EC FLOUR PRICE. HE SAID THAT THESE CALCULATIONS NOW YIELDED A PRICE OF ABOUT \$290/TON. DEDUCTING THE SUBSIDY OF \$105/TON (80 UNITS OF ACCOUNT) HE ARRIVED AT AN EC OFFER PRICE FOB OF \$185/TON. HE SAID THAT THIS COMPARED TO US GULF PRICE OF \$180/TON. REPEATED EFFORTS TO EXTRACT MORE INFORMATION ON THE SPECIFICS OF THE EC CALCULATION, IN PARTICULAR WITH RESPECT TO THE TREATMENT OF MILLING BYPRODUCTS, WERE UNSUCCESSFUL.

12. AT THE CONCLUSION OF THE MEETING, THE U.S., CANADIAN AND AUSTRALIAN DELEGATIONS EXPRESSED DISSATISFACTION WITH THE GENERAL TENOR OF THE CONSULTATIONS AND NOTED THAT THE EC HAD CONSISTENTLY EVADED ANSWERING IMPORTANT QUESTIONS. IN PARTICULAR THE EC HAD AVOIDED ANY EXPLANATION OF WHY THEIR MARKET SHARE HAD INCREASED AS WELL AS ANY COHERENT EXPLANATION OF WHY THEIR SUBSIDIZED WHEAT FLOUR OFFER PRICES WERE SO LOW. THE THREE DELEGATIONS STATED THAT THEY WOULD REPORT THE RESULTS OF THE CONSULTATIONS TO THEIR RESPECTIVE GOVERNMENTS SO THAT A DETERMINATION COULD BE MADE AS TO WHETHER FURTHER CONSULTATIONS UNDER ARTICLE XXII:1 WOULD BE WORTHWHILE OR FORMAL PROCEDURES SHOULD BE INITIATED. THE US ALSO REQUESTED THE OPPORTUNITY TO SUBMIT WRITTEN QUESTIONS ON A NUMBER OF SPECIFIC ASPECTS OF EC SUBSIDY POLICY. THE EC INDICATED THAT THEY

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PAGE 03 GENEVA 01142 03 OF 03 161812Z

WOULD RESPOND ORALLY TO ANY QUESTIONS WE MIGHT ASK
BUT FELT NO NEED TO REPLY IN WRITING.

13. JACQUOT SUGGESTED THAT, IF FURTHER CONSULTATIONS
ARE DESIRED, THE NEXT MEETING COULD TAKE PLACE IN
LONDON AT THE TIME OF THE MARCH 21 IWC MEETING. WE
INDICATED INTEREST BUT RESERVED A RESPONSE PENDING
DISCUSSIONS IN CAPITALS.

14. US CANADIAN AND AUSTRALIAN DELEGATES MET
FEB 15 FOLLOWING CONSULTATIONS TO DISCUSS RESULTS
AND TO CONSIDER OPTIONS ON THE NEXT STEP. AFTER EXTENSIVE
DISCUSSION IT WAS TENTATIVELY AGREED TO RECOMMEND ONE
MORE ROUND OF ARTICLE XXII:1 CONSULTATIONS BUT THAT
THE MARCH 21 DATE WAS PROBABLY TOO EARLY, GIVE THE
ADDITIONAL PREPARATION REQUIRED. ON DEVELOPMENTS IN
INDIVIDUAL FLOUR MARKETS, INWARD PROCESSING ARRANGE-
MENTS, AND SPECIFIC SALES LOST BY EXPORTERS AS A
RESULT OF SUBSIDIZED COMPETITION. IT WAS ALSO AGREED
THAT THE THREE COUNTRIES SHOULD CONTINUE TO
COORDINATE CLOSELY ON THE PREPARATORY WORK AS WELL
AS IN THE CONDUCT OF THE NEXT ROUND OF
CONSULTATIONS. CATTO

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Message Attributes

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